

Message Text

LIMITED OFFICIAL USE POSS DUPE

PAGE 01 MANILA 07164 01 OF 02 240655Z

21

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 FRB-03 /062 W

----- 050246

R 240255Z MAY 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3790

FAS/USDA WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 7164

PASS USDA/FAS/STARKEY/S&TP DIV

E.O. 11652: NA

TAGS: ETRD, EAGR, RP

SUBJ: PHILIPPINE SUGAR SITUATION

REF: PHILIPPINES SUGAR REPORT PH5022

BEGIN SUMMARY. THE PHILIPPINE GOVT, WHICH TOOK OVER THE MARKETING OF SUGAR DURING THE HEIGHT OF LAST YEAR'S SUGAR BOOM, SEEMS TO HAVE SERIOUSLY MISMANAGED ITS DEALINGS IN THIS MAJOR EXPORT COMMODITY. ACTING THROUGH THE PHILIPPINE NATIONAL BANK AND ITS SUBSIDIARY, PHILEX, THE GOP APPEARS TO HAVE MISCALCULATED THE EXPORT MARKET VERY BADLY.

PHILIPPINE SUGAR PRODUCTION IN 1974-75 CROP YEAR IS EXPECTED TO TOTAL 2.8 MILLION SHORT TONS. THE GOP NEEDS TO EXPORT 2 MILLION TONS IN ORDER TO AVOID A BURDENSOME SURPLUS BUT PHILEX, THE GOVT SUGAR MARKETING COMPANY, MOVED TOO SLOWLY IN THE EARLY PART OF THE YEAR. THE PHILIPPINES CAN NOW ONLY HOPE TO EXPORT 1.65 MILLION TONS AND IT IS MOST UNLIKELY THAT THIS LEVEL WILL BE ACHIEVED. CARRYOVER RAW SUGAR STOCKS AT THE END OF THIS CROP YEAR WILL BE NO LESS THAN 700,000 SHORT TONS AND COULD EASILY BE AS HIGH AS 1,000,000 TONS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 07164 01 OF 02 240655Z

THE GOP HAS PROBABLY LOST \$200 MILLION IN REVENUE BY

HOLDING SUGAR WHEN IT SHOULD HAVE BEEN SELLING EARLIER THIS YEAR AND IN THIS PROCESS SACRIFICED THE ORDERLY MOVEMENT OF PHILIPPINE SUGAR INTO EXPORT CHANNELS WHICH IS NECESSARY IN ORDER TO HAVE AVAILABLE MARGINAL STORAGE CAPACITY, CONSIDERING THE SUGAR INDUSTRY'S WAREHOUSING LIMITATIONS.

THE DECLINE IN WORLD SUGAR PRICES HAS CAUSED THE GOP TO LOWER THE FIXED PRICE RECEIVED BY THE FARMER FOR SUGAR. THE PROFITABILITY OF THE GOP'S SUGAR TRADING COMPANY (PHILEX) WILL ALSO BE SERIOUSLY AFFECTED. END OF SUMMARY.

1. PRODUCTION - PHILIPPINE SUGAR PRODUCTION DURING 1974-75 (SEPT-AUG) CROP YEAR IS ESTIMATED AT 2.8 MILLION SHORT TONS. AS OF APR 20 MILLINGS WERE OVER 100,000 SHORT TONS MORE THAN DURING SAME PERIOD LAST YEAR DUE TO HIGHER SUGAR YIELD AND LARGER PRODUCTION AREA.

2. DOMESTIC CONSUMPTION - DOMSTIC CONSUMPTION OF CENTRIFUGAL SUGAR IS ESTIMATED AT 950,000 SHORT TONS THIS YEAR, ABOUT 80,000 TONS PER MONTH.

3. STOCKS - THE PHILIPPINES BEGAN THIS MARKETING YEAR WITH STOCKS OF 559,000 SHORT TONS, MORE THAN DOUBLE THE NORMAL CARRY-OVER. IN VIEW OF RECENT EXPORT TRADE DEVELOPMENTS IT APPEARS STOCKS AT THE END OF THIS YEAR WILL INCREASE TO AT LEAST 750,000 OR 800,000 SHORT TONS.

4. EXPORTS - SUGAR EXPORTS IN 1974-75 CROP YEAR WILL PROBABLY EXCEED 1973-74 EXPORTS BY MORE THAN 200,000 SHORT TONS BUT WILL FALL FAR SHORT OF THE 2,000,000 TONS EXPORT LEVEL NEEDED TO AVERT BURDENSOME SURPLUS. SINCE ONLY 951,263 SHORT TONS HAVE BEEN EXPORTED AS OF MAY 16 AND THE PHYSICAL LIMITATIONS OF LOADING PHILIPPINE SUGAR ON SHIPS, AGATTACHE ESTIMATES THAT 1974-75 EXPORT LEVEL WILL BE NO HIGHER THAN 1,650,000 SHORT TONS. AS EACH DAY PASSES WITH LACK OF SELLING ACTIVITY ON THE PART OF PHILEX, THIS LEVEL WILL BE REDUCED.

5. THE FOLLOWING STATISTICAL TABLES ILLUSTRATE THE ABOVE NARRATIVE:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 07164 01 OF 02 240655Z

PHILIPPINE SUGAR EXPORTS (1) (IN SHORT TONS)

	U.S.	JAPAN	OTHER	TOTAL
1973-74	1,343,064	9,850	43,968	1,396,873
1974-75 (2)	333,032	459,958	158,273	951,263

(1) CROP YEAR BASIS SEPT -1- AUG 31.

(2) EXPORTS THROUGH MAY 16, 1975.

SUPPLY AND DISTRIBUTION - PHILIPPINE SUGAR
(IN 1,000 SHORT TONS)

	REG	PRODUCTION	TOTAL	DOMESTIC EX-	ENDING
	STOCK	SUPPLY	CONSUMP.	PORTS	STOCKS
1) 1972-73	288	2,474	2,762	873	1,725 164
1) 1973-74	164	2,695	2,859	903	1,397 559
2) 1974-75	559	2,800	3,359	950	1,650 759

6. STATUS OF CONTRACTED SALES - TO THE BEST OF OUR KNOWLEDGE PHILEX HAS NOT SOLD ANY SUGAR SINCE THE ESTIMATED 650,000 TO 800,000 TONS SOLD TO THE WORLD MARKET LATE 1974 OR EARLY 1975. THIS ESTIMATE IS BASED ON WHAT SOURCES IN THE SUGAR TRADE BELIEVE TO BE THE VOLUME OF CONTRACTS OUTSTANDING. BUT ONLY A FEW PEOPLE AT THE HIGHEST ECHELON OF THE GOP KNOW THE COMBINED QUANTITY OF CONTRACTED SUGAR. THIS SUGAR WAS SOLD AT AN AVERAGE PRICE OF ABOUT 38-1/2 CENTS A POUND.

7. BROKERS HAVE FOUND JAPAN TO BE THE MOST LUCRATIVE MARKET FOR THE SUGAR AND THEY HAVE DELIVERED ABOUT 400,000 TONS, IN AGGREGATE, FROM THE DECEMBER CONTRACTS TO JAPAN. AN ESTIMATED 100 TO 150 THOUSAND TONS UNDER THESE CONTRACTS HAVE BEEN SOLD TO OTHER DESTINATIONS (UNITED KINGDOM, IRAN AND TANGIERS). WE BELIEVE ABOUT 100 TO 250 THOUSAND TONS OF SUGAR ALREADY SOLD TO THE WORLD MARKET IS YET TO BE DELIVERED AND WILL BRING TOTAL UP TO 1.2 MILLION TONS EXPORTED THUS FAR IN 1974-75. WE DO NOT BELIEVE THERE HAVE BEEN ANY SALES SINCE DECEMBER.

8. IN VIEW OF TIGHT STORAGE, EMBASSY BELIEVES GOP WILL HAVE TO DISPOSE OF ADDITIONAL 250,000 TO 500,000 TONS PRIOR TO NOVEMBER OF 1975 (WHEN THE NEW MILLING SEASON SWINGS INTO HIGH GEAR)
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 MANILA 07164 01 OF 02 240655Z

REGARDLESS OF THE WORLD PRICE. THE ONLY ALTERNATIVE WOULD BE TO CURTAIL MILLING. IN ANY EVENT, THE PHILIPPINES IS ALMOST CERTAIN TO ENTER CROP YEAR 1975-76 WITH OVER 700,000 TONS OF SUGAR IN PORT TERMINALS, MILL WAREHOUSES AND OTHER MAKESHIFT STORAGE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 07164 02 OF 02 240819Z

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 FRB-03 /062 W

----- 051596

R 240255Z MAY 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3791

FAS/USDA WASHDC

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 7164

9. COMMENT. IN REVIEWING PRODUCTION, CONSUMPTION AND TRADE DATA AS IT MUST HAVE LOOKED TO GOP SUGAR OFFICIALS IN DEC 1974, IT APPEARS THAT THEY COULD HAVE SOLD UP TO AN ADDITIONAL ONE MILLION TONS AND SHOULD HAVE SOLD, AS A MINIMUM, AT LEAST 500,000 TONS TO KEEP STOCKS AT A MANAGEABLE LEVEL. WITH THE BENEFIT OF HINDSIGHT AND ASSUMING THAT THE WORLD PRICE OF SUGAR DOES NOT EXCEED 18 TO 20 CENTS A POUND PRIOR TO NOV OF 1975, IT CAN BE CONSERVATIVELY ESTIMATED THAT GOP LOST THE OPPORTUNITY TO BANK 200 MILLION IN REVENUE FROM SUGAR SALES. THIS ESTIMATE IS BASED ON A LOSS OF 20 CENTS A POUND. THE PHILIPPINES HAD 1973-74 CARRYOVER STOCKS AND CURRENT PRODUCTION PROSPECTS SUFFICIENT TO HAVE SOLD AN ADDITIONAL 500,000 TONS AT 38 CENTS OR MORE PER POUND BUT GOP CHOSE TO PLAY THE MARKET. THIS \$200 MILLION COULD HAVE MADE A NEEDED CONTRIBUTION TO THE GOP TRADE BALANCE. IT COULD HAVE PAID FOR NEARLY ONE-THIRD OF THE PHILIPPINE ANNUAL PETROLEUM IMPORT REQUIREMENTS.

10. FARM PRICES - THE MOST RECENTLY PREVAILING FARM PRICE SYSTEM FOR SUGAR IS A TWO-PRICE SYSTEM WHICH SUCCEEDS A THREE-PRICE SYSTEM THAT WAS IN EFFECT DURING MARCH AND APRIL OF 1974-75. UNDER THE PRESENT SYSTEM, EFFECTIVE MAY 5, 1975, THE PHILIPPINE NATIONAL BANK (PNB) PAYS THE PLANTER PESOS 60 PER PICUL (6.1 US CENTS PER POUND) FOR 30 PERCENT OF HIS CROP WHICH IS ALLOCATED TO DOMESTIC CONSUMPTION AND PESOS 125 PER PICUL (12.9 US CENTS PER POUND) FOR 70 PERCENT OF THE CROP FOR EXPORT SALES AND RESERVE (65 PERCENT IS ALLOCATED TO EXPORT AND 5 PERCENT IS DESIGNATED RESERVE).

LIMITED OFFICIAL USE

PAGE 02 MANILA 07164 02 OF 02 240819Z

11. PRIOR TO MAY 5, THE FARMER WAS PAID PESOS 49.80 PER PICUL (5.1 U.S. CENTS PER POUND) FOR DOMESTIC SUGAR FOR HOUSEHOLD USE, PESOS 83 PER PICUL (8.6 US CENTS PER POUND) FOR DOMESTIC USE INDUSTRIAL SUGAR AND PESOS 180 PER PICUL (18.6 US CENTS PER POUND)

FOR EXPORT SUGAR. PAYMENTS WERE MADE BASED ON ALLOCATIONS OF 65 PERCENT TO EXPORT, 22.75 PERCENT TO INDUSTRIAL DOMESTIC USE AND 12.25 PERCENT TO TABLE CONSUMPTION.

12. THE OVERALL EFFECT OF THIS PRICE REALIGNMENT TO THE FARMER HAS BEEN A DECREASE IN THE COMPOSITE PRICE OF SUGAR FROM PESOS 141.98 PER PICUL (14.6 US CENTS PER POUND) TO PESOS 105.20 PER PICUL (10.8 US CENTS PER POUND).

13. PRICE VERSUS COST OF PRODUCTION - BASED ON A YIELD OF 86 PICULS PER HECTARE AND AVERAGE PRODUCTION COST OF PESOS 75 PER PICUL (7.7 US CENTS PER POUND) THE TOTAL COST OF PRODUCTION PER HECTARE IS PESOS 6,450; AFTER ADJUSTMENTS FOR NEW FERTILIZER PRICES, THE COST WOULD BE ABOUT PESOS 6,200. PRODUCERS ARE PAID ON BASIS OF 65 TO 70 PERCENT OF SUGAR PRODUCED, MILLS RECEIVE 30 TO 35 PERCENT FOR COST OF MILLING. THUS, PRODUCER RETURNS AT NEW COMPOSITE PRICE IS PESOS 6,330 (86 PICULS X 70 PERCENT PRODUCER SHARE X PESOS 105.50 PER PICUL). NET RETURNS WOULD BE PESOS 130 PER HECTARE OF .223 US CENTS PER POUND.

WITH THIS LOW RATE OF RETURN, MARGINAL PRODUCERS WILL LIKELY TURN TO OTHER CROPS TO THE EXTENT THE 1975-76 CROP IS NOT PLANTED AND/OR REDUCE INPUTS, ESPECIALLY FERTILIZER.

14. IMPACT OF WORLD PRICE DECLINE - THE GOP HAS PAID PRODUCERS 18.6 US CENTS PER POUND FOR EXPORT SUGAR THROUGHOUT MOST OF THIS CROP YEAR. PHILEX REVENUES FROM SUGAR SALES TO DATE WOULD MOST LIKELY EXCEED \$350 MILLION AS PHILEX HAS MAINTAINED A PROFIT MARGIN OF NEARLY 20 US CENTS PER POUND ON ALL SUGAR SOLD. UNDER THE NEW PRICING SYSTEM THE FARMER RECEIVES 12.9 US CENTS PER POUND FOR EXPORT SUGAR. ASSUMING THE WORLD PRICE FOR SUGAR STAYS IN THE CURRENT 17 TO 18 CENTS RANGE AND ASSUMING THAT THE PHILIPPINES WILL SELL AN ADDITIONAL 500,000 TONS THIS YEAR, THE GOP CAN EXPECT TO COLLECT ABOUT \$50 MILLION IN REVENUE FROM THESE SALES. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 07164 02 OF 02 240819Z

SULLIVAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, PRODUCTION DATA, EXPORT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 24 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA07164
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750182-1043
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750520/aaaaarcv.tel
Line Count: 263
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 PHILIPPINES SUGAR REPORT PH5022
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2003 by BoyleJA>; APPROVED <24 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PHILIPPINE SUGAR SITUATION
TAGS: ETRD, EPAP, RP
To: STATE AGR
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006